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*Pulling Together to Build Our Future*

# **Governor's Special Session Individual Income Tax Bill HB 4004**

**Presentation to the House Finance Committee  
June 2, 2016**

# *Individual Income Tax*

*"An Act establishing an individual income tax; and providing for an effective date."*

# *Income Tax (new AS 43.22)*

## **What it Does**

- Creates Individual Income Tax at 6% of Federal Tax Liability
- Similar structure to Alaska's historic income tax, which was repealed in 1980
- The historic tax peaked at 16% of Federal Tax liability
- Provides for withholding by employers
- Also taxes out of state income, partnerships, S-corps

## **How it Differs from Regular Session Bill**

- Cleans up language related to taxation of trusts
- Removes fishery crew shares from withholding tax requirements
- Delays effective date to January 2018

# *Income Tax (new AS 43.22)*

## **How Much Does it Raise?**

- \$100 million in FY18, \$205 million in FY19
- After 2019 tied to inflation and income growth

## **How Does it Impact Alaskans?**

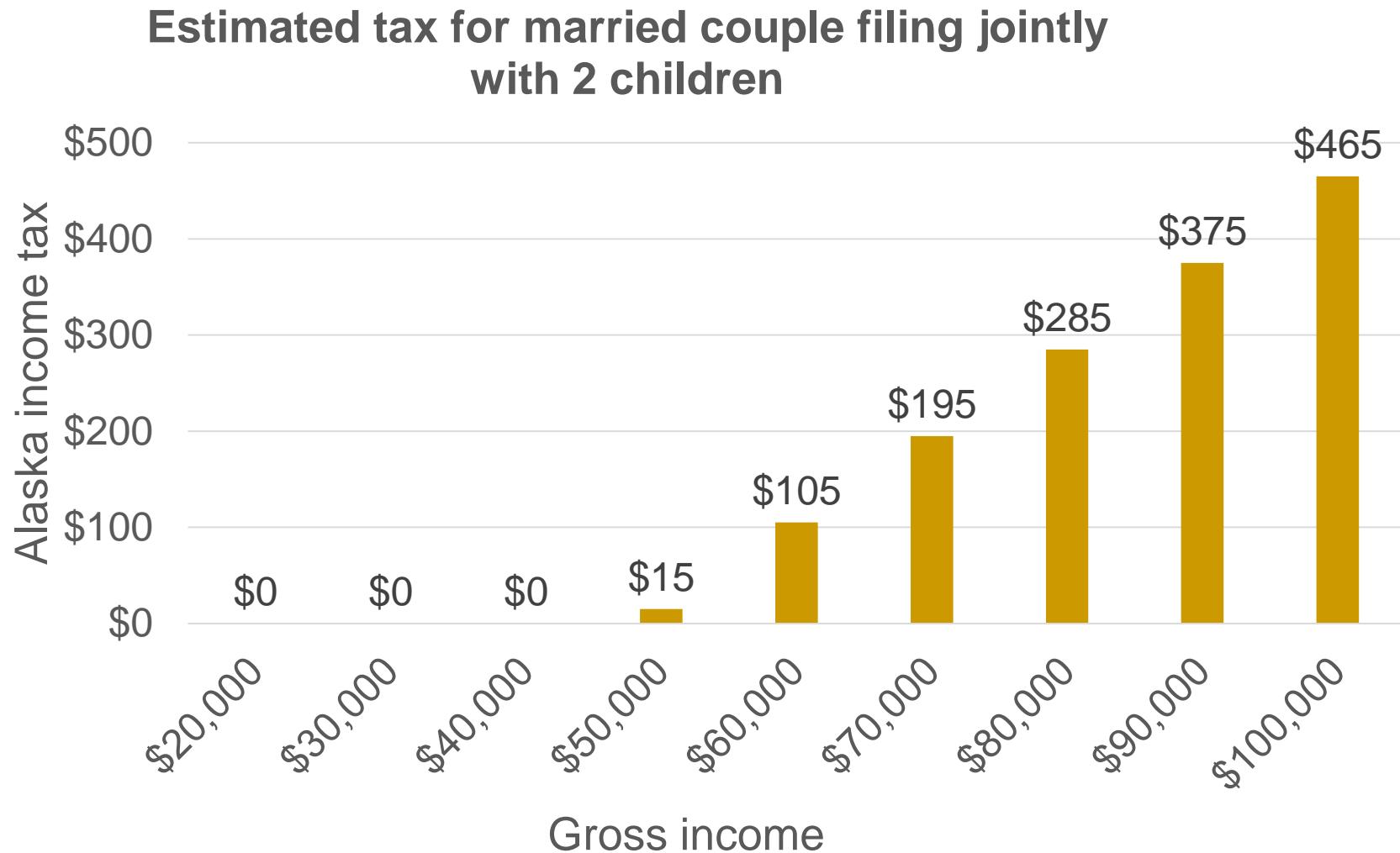
- About 20-30% of Alaskans will have no liability
- Very low tax burden on households who make < \$50,000
- Most households will pay substantially less than 1% of income
- State income taxes are deductible from federal income tax, for those who itemize
- 43 states currently have an income tax

# *Income Tax (new AS 43.22)*

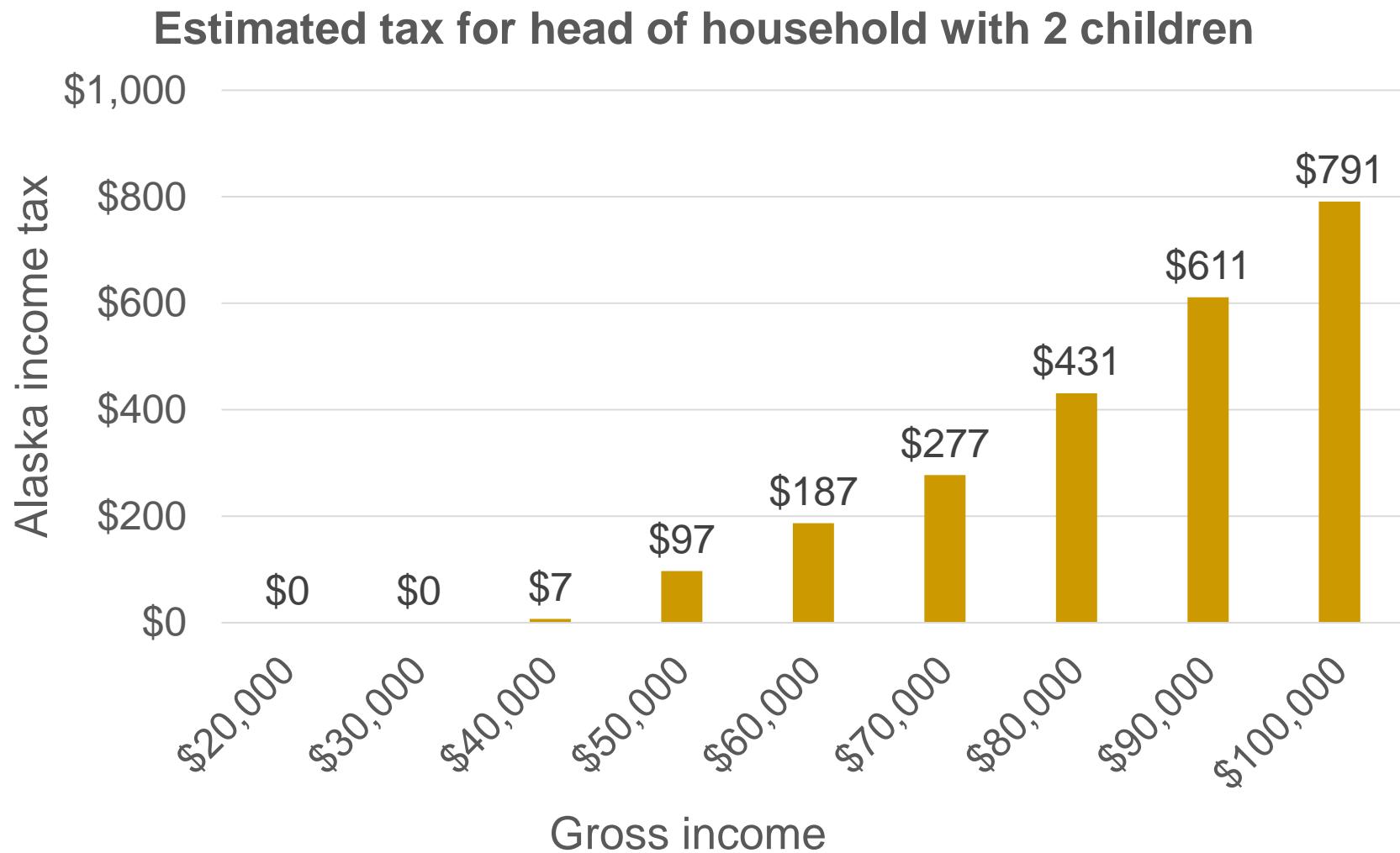
- Creates a tax on an individual's income. The proposed rate is 6% of a person's federal income tax liability (rates applied against Taxable Income, not Gross Income)

Federal Income Rate	Effective Alaska Rate
10%	0.60%
15%	0.90%
25%	1.50%
28%	1.68%
33%	1.98%
35%	2.10%
39.6%	2.38%

# *Income Tax Estimates*



# *Income Tax Estimates*



# ***Sectional Analysis***

**Sec. 1.** Adds a new chapter 22 in AS 43 for individual income taxes.

43.22.010 Imposes an income tax on both resident and nonresident individuals. The tax is six percent of a resident's federal tax liability. The tax for a nonresident is six percent of the portion of federal tax liability that is from a source in the state.

43.22.020 Provides a credit to residents for taxes paid to another state based on income earned in that other state.

43.22.030 Provides for annual returns to the Department of Revenue with taxes due on the date the federal tax return is due. The taxpayer must provide a copy of their IRS return. The department is authorized to pay refunds of overpaid taxes.

43.22.040 Defines sources of income within Alaska that are subject to the tax.

## *Sectional Analysis (Continued)*

43.22.050 Provides for withholding from wages and salaries by employers, with those withheld taxes periodically remitted to the state.

42.22.060 Authorizes DOR to administer the tax.

42.22.190 Adds definitions for specific terms used in this section.

**Sec. 2.** Repeals statutes related to a former tax credit for political contributions that existed under Alaska's prior individual income tax which was repealed in 1980.

**Sec. 3.** Applicability section establishing that the new tax applies to income received on or after the effective date of the bill.

**Sec. 4.** Authorizes DOR to adopt regulations.

**Sec. 5.** Immediate effective date for Section 4, so that regulations can be drafted immediately.

**Sec. 6.** Effective date of 1/1/2018 for the rest of the bill.

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## Thank You!

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